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Inflation and the Budgetary Outlook

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INFLATION AND NORMAL INCOME GROWTH, now and in the foreseeable future, will increase federal revenues much faster than federal expenditures for existing programs and new undertakings so far proposed by the administration. Over the next six years, annual federal revenues at full employment could rise by $165 billion as against a growth in annual expenditures of $136 billion, leading to a potential full employment budget surplus of almost $40 billion by 1980, unless taxes are cut or other new programs are enacted in the interim. If prices rise by 5 percent a year rather than by the 3 percent assumed in this projection, the 1980 full employment surplus could be another $20 billion higher. In either event, future federal budgets could accommodate a range of new initiatives.

This prospect underlies the conclusions reached in the fifth of the annual series of Brookings studies entitled *Setting National Priorities*. The authors of this year's analysis of the fiscal prospects and national policy issues reflected in the President's proposed budget are Barry M. Blechman, a senior fellow in the Brookings Foreign Policy Studies program, and Edward M. Gramlich and Robert W. Hartman, senior fellows in Economic Studies. Karen Davis, a research associate in Economic Studies, wrote the chapter on national health insurance.

In projecting the budgetary outlook, the authors take into account two important initiatives proposed by the administration, the first of which is a major change in the nation's defense posture. The administration seems to be taking a much stiffer view of defense requirements than it did in 1973. As the United States withdrew from Southeast Asia, it scaled down its general purpose ("conventional") forces, sharply reducing the numbers of army divisions, ships, and aircraft from the peaks attained in 1968. The administration believes that these decreases in U.S. military capability have gone as far as they can go without jeopardizing the nation's security.

This year's defense budget and the administration's accompanying statements defining the nation's military requirements point toward a "new look" in defense policy and military strategy. Some of the proposed

measures would reduce the cost of defense: cuts in the number of military support and auxiliary personnel and renewed emphasis on buying less expensive ships, aircraft, and weapons are particularly important in this regard. Other proposals, however, would more than offset these efficiency measures: enlarging the size and capability of general purpose forces, expanding airlift capabilities, and accelerating the modernization of aircraft, ships, and weapons. In addition, new criteria for determining the size and composition of strategic nuclear forces, and a new emphasis on the readiness of general purpose forces, would affect the U.S. defense budget over the longer term.

The administration requests a large addition to the Defense Department's budgetary authority to pay for these first steps toward a significant change in the U.S.

defense posture. After adjusting for pay and price increases and for the timing of the supplemental defense budget request, the authors estimate that in fiscal 1975 a real increase of nearly 6 percent has been proposed for "baseline" defense programs. ("Baseline" programs exclude the cost of payments to retired personnel, support of other nations, and the remaining incremental costs of the war in Southeast Asia.) If the administration's program is enacted as proposed, defense spending will continue to increase through the remainder of the decade. Outlays will grow by an average of 5 percent a year in real terms through 1980, ending a five-year decline in the share of the federal budget devoted to defense.

Setting National Priorities: The 1975 Budget, by Barry M. Blechman, Edward M. Gramlich, and Robert W. Hartman. Published May 1974, 269 pages, $2.95 paper, $7.95 cloth.

The administration's second major initiative is a new national health insurance proposal. This program would call for additional federal expenditures of about $8 billion a year starting in 1977, and would require private employers to contribute roughly four times that amount in premiums for their employees. The Kennedy-Mills plan, a leading alternative, would have the government assume the costs of employee premiums and thus add much more to total federal spending. Since a payroll tax is part of the Kennedy-Mills plan, however, the net effect on the federal budget surplus would be about the same as under the administration proposal.

Either plan would make health insurance universal, provide virtually free medical care to the very poor but require more affluent persons to pay a larger part of their medical costs, protect everyone against catastrophic medical expenses, and include provisions intended to discourage further rapid increases in the cost of health care. Aside from their methods of finance, the plans differ in that the administration proposal would give private insurance companies and states a much larger responsibility for administering the system and controlling the costs of medical care.

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Blechman, Gramlich, and Hartman examine the costs and benefits of trends in other important policy areas:

Continued rapid growth in income support programs. Social security benefits remain the largest single item in this category, but much of the growth is accounted for by newer programs that provide supplemental security income to the aged and disabled and that expand the availability of food stamps. In addition to discussing possible improvements in these programs that would raise their costs by about $4 billion a year, the authors also consider whether several existing programs should be replaced by a universal negative income tax that could cost up to $17 billion a year by 1980.

Increasing attention to long-run energy needs. After comparing alternative strategies for achieving independence in energy sources, the authors conclude that fuel stockpiling would probably cost much less than a policy of strict self-sufficiency as a means of insuring against the effects of oil embargoes. They assess the merits of stepping up research and development expenditures for alternative energy sources, revamping urban mass transit grants so as to reduce demands on existing energy supplies, eliminating domestic depletion allowances to encourage the use of nondepletable resources such as nuclear and solar energy, and eliminating foreign tax advantages to stimulate the development of domestic energy supplies.

Diminishing growth in grants to state and local governments for education, manpower, and urban community development. The authors find that if federal commitments proceed at the rate proposed in the budget, inflation will have eroded $2 billion from the value of these programs between fiscal 1972 and 1975. Projections based on the administration's budget requests indicate a further decline in real spending levels that would check the expansion of several programs inherited from the Great Society.

A difficult budgetary planning problem arises from the fact that these grant-in-aid programs must compete for funds in the annual appropriation process, unlike most open-ended income support programs, which grow automatically. In the 1975 budget, open-ended programs and other "uncontrollables," such as interest on the federal debt and pay raises for federal employees and pensioners, will account for nearly three-fourths of the increase in federal spending. Given the administration's decision to expand the defense budget but to limit the rise in total spending to $30 billion in 1975, only about $3.5 billion will be available to increase domestic programs other than income support. Most of this margin is earmarked for pollution control, urban mass transit, and energy research, leaving less than $300 million—not nearly enough to compensate for inflation—for ex-

pansion of grants for education, health, manpower training, and related activities.

Turning to an immediate problem confronting the administration, the authors analyze the merits of a tax cut to counteract the expected rise in unemployment. They point out that, when measured by the full employment budget surplus, the fiscal policy proposed for 1975 is more restrictive than at any other time since the early 1960s. Then they compare alternative proposals for lessening restrictiveness—the Mondale and Kennedy plans for reducing personal income taxes, and two proposals that would cut the social security payroll tax. All would reduce federal revenues by about $6 billion a year, but with varying benefits for low- and middle-income groups. The analysis suggests that such tax cuts could partially compensate those groups for the damage done by inflation and rising unemployment, without worsening inflation to a significant extent.

In addition to analyzing the administration's proposals, Blechman, Gramlich, and Hartman examine the costs and benefits of other program initiatives not requested by the administration. In addition to the income support and social grant programs mentioned above, the authors examine the possible need to cut some of the more regressive federal taxes and to provide additional budgetary saving for a "fiscal cushion" to discourage higher interest rates. Some, but not all, of these ventures could be financed by the budget surplus foreseen in the years ahead. In the authors' view, that prospect emphasizes the need to reexamine the objectives and performance of existing federal programs, as well as the justification for the tax preferences now embedded in the federal revenue system.

Research for the defense chapters of *Setting National Priorities* was carried out as part of a continuing program of studies supported by a grant from the Ford Foundation. The project as a whole was supported by grants from the Carnegie Corporation of New York and the Richard King Mellon Foundation.

The American Tax System: Who Bears the Burden?

Americans pay more than a quarter of their incomes to the federal, state, and local governments in a variety of taxes. How the overall tax burden is distributed and whether the result is fair are questions that have divided economists and puzzled laymen over the years. The debate has centered mainly on the individual income tax, the largest source of governmental revenue in the United States. Even though the other taxes account for twice the revenue produced by the individual income tax, the distribution of these taxes by income classes has not been generally known.

Joseph A. Pechman, director of the Brookings Economic Studies program, and Benjamin A. Okner, a senior fellow in Economic Studies, have estimated the effect of *all* U.S. taxes on the distribution of income by various income classes and by other characteristics of the taxpaying population. Their study—*Who Bears the Tax Burden?*—is unique in two respects. First, the estimates are based on data for a representative sample of 72,000 families referred to as the MERGE file, which combines information from the 1967 Survey of Economic Opportunity with an Internal Revenue Service file of individual income tax returns for 1966 (without, however, revealing the identity of the taxpayers). When properly weighted, the sample accounts for the estimated total income received by all household units in 1966, the most recent year for which adequate statistics are available. This information can be processed quickly in an electronic computer, allowing estimates to be made in more detail than was previously possible.

Who Bears the Tax Burden? by Joseph A. Pechman and Benjamin A. Okner. Published April 1974, 119 pages, $2.50 paper, $5.95 cloth.

Second, Pechman and Okner recognized that economists still disagree about the incidence of several important taxes—the corporation income tax, the property tax, and payroll taxes—which may be shifted in whole or in part to consumers. Instead of limiting their analysis to one or two views of tax shifting, the authors prepared estimates based on eight sets of incidence assumptions that span the range of opinions currently held by economists.

The analysis is concerned solely with the distribution of tax burdens, with no reference to the distribution of benefits from the governmental activities that are supported by taxes. It shows how the distribution of disposable income under the 1966 tax system differed from what it would have been if all tax revenues had come from a *proportional* income tax with the same yield—that is, a tax bearing the same relation to income at all income levels. (A tax is *progressive* when the ratio of tax to income rises as incomes rise, and *regressive* when the ratio of tax to income falls when incomes rise.)

Using the MERGE file, Pechman and Okner were able to calculate the tax burden by percentile groups as well as by absolute income levels, thus providing a comparison of tax burdens for groups representing the same number (or percentage) of family units in various parts of the income scale. Their principal findings are summarized in Figures 1 and 2. Each figure shows the effective rates of federal, state, and local taxes throughout

Figure 1. *Effective Rates of Federal, State, and Local Taxes under the Most and Least Progressive Incidence Variants, by Adjusted Family Income Class, 1966*

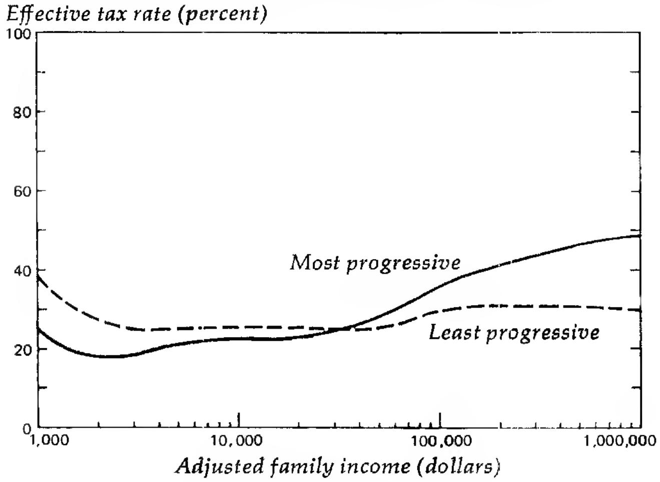
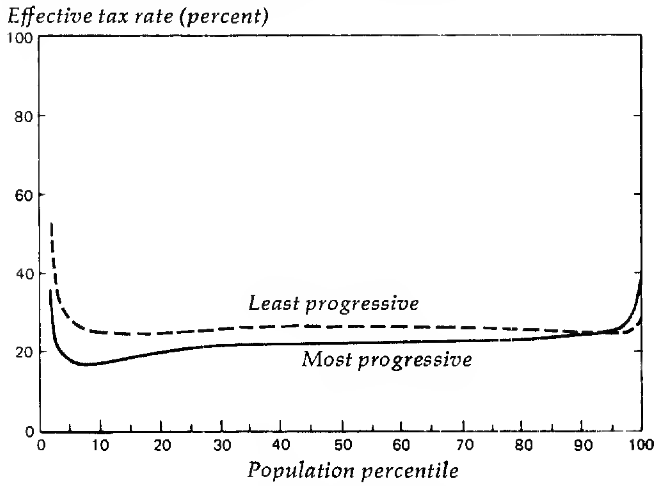


Figure 2. *Effective Rates of Federal, State, and Local Taxes under the Most and Least Progressive Incidence Variants, by Population Percentile, 1966*



the scale of incomes for the most progressive and least progressive sets of incidence assumptions used in the study. The only difference between the two is that effective tax rates are plotted on a logarithmic scale by absolute income levels in Figure 1 and on an arithmetic scale by income percentiles in Figure 2.

Figure 1 gives the impression that there are large variations in relative tax burdens between low- and middle-income family units and between middle- and high-income units. Under both sets of incidence assumptions, effective tax rates are high at the bottom of the income scale and then drop perceptibly until the $3,000 level is reached. Between $3,000 and $25,000 the effective rates range between 20 and 25 percent of income and then diverge above the $25,000 level. Under the most progressive set of assumptions, the tax burden rises sharply until it reaches almost 50 percent of income for families with incomes of $1 million or more. Under the least progressive assumptions, the burden reaches only about 30 percent for those with incomes of $100,000 or more.

Figure 2 presents a very different picture. The difference in effective tax rates under the two sets of incidence assumptions is very small over the entire scale of income distribution between the tenth and ninety-seventh percentiles of family units. Over this broad range, covering incomes between $2,000 and $30,000 and including 87 percent of all family units, the tax system is either proportional or only slightly progressive. At both ends of the distribution the effective rates rise sharply, but the rise at the top is much less pronounced under the least progressive variant than under the most progressive one.

These data represent the weighted averages of many taxes, some progressive, some regressive, still others progressive in some ranges of income and regressive in others. Pechman and Okner also examine the burden of each major tax at various income levels and by deciles:

- The *individual income tax* is progressive over most of the income scale but becomes slightly regressive at the very top, reflecting the fact that in the highest income classes a rising portion of total income is not subject to federal or state income taxes.
- *Sales and excise taxes* are regressive throughout the entire income scale. They exceed 9 percent at the bottom and fall to about 1 percent at the top, since the proportion of family income spent on goods and services subject to tax falls as income rises.
- *Payroll taxes* are progressive for families with incomes up to about $10,000 and then become regressive. Their progressiveness at the lower end of the scale results from the facts that much of the income received by very poor families, such as welfare payments, is not subject to these taxes; and that many low-income workers are not in jobs covered by the employment tax system. Payroll taxes are regressive above $10,000 because they are levied at a flat rate up to a maximum amount of annual earnings.

The crucial factors in determining the degree of progressiveness of the tax system as a whole are the assumptions regarding the incidence of the *corporation income tax* and the *property tax*. If these taxes are borne by stockholders and other property owners, they are highly progressive; but if one assumes that half of the corporate tax is shifted to consumers and that the property tax is a tax on shelter and consumption, progressiveness virtually disappears.

Regardless of the incidence assumptions, Pechman and Okner find that the average tax bite is essentially the same over most of the income distribution. Only families at the very top and bottom of the income scale pay an average of more than 25 percent of their income

in taxes, and the overall tax system does little to reduce income inequality.

Structural changes were made in the federal income taxes in 1969 and 1971, payroll taxes have been raised almost annually, and many changes have been made in state and local taxes since 1966. Nevertheless, Pechman and Okner believe that the general pattern of tax burdens in a more recent year would not differ much from that shown in their study.

Who Bears the Tax Burden? is the thirty-fourth publication in the Brookings Studies of Government Finance series. Development of the tax data file was begun under that program of studies, which was financed by the Ford Foundation. The analysis of tax burdens was financed by a grant from the U.S. Office of Economic Opportunity.

The World's Energy Problems Are Not Insoluble, If—

In March 1974, fifteen private specialists from the European Community, Japan, and North America met in Brussels to discuss what might be done to cope with the new situation in world oil markets and to explore the future prospects for energy supply and demand. Their report, *Cooperative Approaches to World Energy Problems,* is not confined to the jarring events of 1973—the Arab oil embargo and the attendant jump in world oil prices—but also takes into account the changes that had been occurring over the previous several years. In that broader setting, the current situation is seen to have emerged from a host of economic and political trends that culminated in a shift in the relative market power of oil producers and oil consumers. "Efforts to find scapegoats elsewhere will only blind us to realities," the experts say.

Cooperative Approaches to World Energy Problems, a tripartite report by fifteen experts from the European Community, Japan, and North America. Published June 1974, 51 pages, $1.00 paper.

In projecting oil export capabilities and import requirements through the period ending in 1985, their report suggests that a large potential surplus of supply over demand could arise well before 1980. In that event, producers would, of course, have to restrict output sufficiently to eliminate the threatened surplus, or prices would fall.

All things considered, the experts believe that some softening of oil prices is likely—perhaps even a substantial drop. But the lesson for the major oil importers is not that prices may fall. It is rather that, through a combination of measures to economize in the use of energy and to develop domestic energy production, the importing countries can restore the balance between their own market power and that of the oil exporters.

Several major conclusions emerge from the experts' discussion of policy alternatives. The first is that the world's energy-related problems are by no means insoluble. The world is not confronted by an imminent physical shortage of energy, nor—if they act wisely—need consumers of energy face the prospect of continuously rising prices. The interrelated problems that have come to be known collectively as the "energy crisis" were caused essentially by the abruptness and magnitude of changes in the international oil market. Had these changes come more gradually, there would have been no crisis. As it is, the process of adjustment to change will be difficult but manageable. #1

The second conclusion is that solutions to most energy-related problems either require international cooperation or are best pursued in a cooperative context. Attempting to go it alone could in some respects be ineffective and self-defeating, or damaging to the international economic system on which the welfare of all nations depends. #2

Thirdly, cooperation among the major industrialized countries should not take the form of confrontation with the oil exporting countries, but should concentrate on measures to conserve energy and expand and diversify sources of energy. A long-term goal should be to join with oil producers in an effort to stabilize the production and marketing of oil for the benefit of all. Cooperative international efforts will also be needed to ensure the safe development of nuclear power as an important new source of energy. #3

Finally, participants in the meeting agreed that the international community must give immediate attention to two urgent problems:

- The industrialized countries must agree that none of them will try to adjust to the sudden increase in the costs of their imported oil through measures that make the adjustment problems of other nations more severe.
- The industrial nations, and those oil exporting countries that have revenues in excess of domestic needs, should join in efforts to help the poorer developing countries to cope with the potentially devastating effects of greatly increased prices for both oil and grain.

The tripartite meeting on world energy problems was the fifth in a continuing series sponsored by the European Community Institute for University Studies, the Japan Economic Research Center, and the Brookings Institution to examine international economic policies

and problems from three geographical perspectives. A grant from the Charles F. Kettering Foundation and the participation of the Trilateral Commission (a group of private citizens in North America, Western Europe, and Japan, formed in 1973 to promote cooperative solutions to common problems of the industrialized nations) helped to cover the cost of the North American share of the undertaking.

After Oil, Bananas and Bauxite?

Last year the Organization of Petroleum Exporting Countries (OPEC) successfully engineered a major increase in the world price of oil. Could producing countries band together to raise the prices of other commodities essential to the industrial world? This question is explored in the following exchange between C. Fred Bergsten and Philip H. Trezise, both senior fellows in the Brookings Foreign Policy Studies program.

Mr. Bergsten's argument is adapted from his statement of May 15, 1974, before the Subcommittee on Foreign Economic Policy of the House Committee on Foreign Affairs. Mr. Trezise's rejoinder is based on his remarks before an Open Forum meeting held at the U.S. Department of State in March.

"Commodity Power" Is Here to Stay

C. Fred Bergsten

THERE CAN NOW BE NO DOUBT that a large number of primary producing countries will make steady, determined, and often concerted efforts to raise substantially their returns from a wide range of the commodities they produce, in part through the formation of "new OPECs," and that many of them are in an excellent position to do so.

None of the individual commodities susceptible to such developments has the quantitative or qualitative importance of oil. Nor is it likely that this new commodity power will often be used, as was oil, for political reasons—though oil may well be used for that purpose again.

Nevertheless, successful "resources diplomacy" on the part of producing countries will further intensify the strong inflationary pressures now engulfing the world economy, including our own. Since many of these primary producers are developing countries, their actions will also reduce the North-South economic and political disparities that characterized the first postwar generation, and thus may put new constraints on U.S. foreign policy in the coming years.

Since I first called attention to the likelihood of these developments a year ago in "The Threat From the Third World" (*Foreign Policy*, Summer 1973), their scope and depth have expanded dramatically.

• OPEC itself effectively quadrupled the price of oil and cut production sharply. Oil is of course the most important commodity in world trade.

• The leading coffee producers have established effective control over the world coffee price. Indeed, they are so confident of success that they let expire the International Coffee Agreement, which they had previously relied on to secure the cooperation of the consuming countries in stabilizing prices. Coffee has traditionally been the second most heavily traded commodity in the world.

• The phosphate producers acted together to triple their prices. Phosphate is of course a major input to fertilizer and detergents.

• The bauxite producers have formed the International Bauxite Association. Immediately thereafter the leading producer, Jamaica, demanded a fundamental renegotiation of its present arrangements with the multinational aluminum firms now operating there, apparently including an increase in the domestic processing of the bauxite ore into alumina and six times higher taxes and royalties on all output. It is widely assumed that the other producing countries will demand terms equal to those achieved by Jamaica.

• The Latin American banana producers have organized an International Organization of Banana Exporters (known by its Spanish acronym, IPEB) and raised their prices substantially through the joint imposition of export taxes.

• The major tin producers are seeking a 42 percent increase in the guaranteed floor price maintained through the buffer stock held under the International Tin Agreement.

• The four major copper exporters, through their long-standing organization CIPEC, are now deciding how to fix a floor price for their commodity.

Several qualitative developments have accompanied this trend. More than two dozen developing countries have set up ministries of resources to pursue their new economic diplomacy. The call for new "producer associations" was a central theme at a special session of the UN General Assembly. In a recent meeting of parties to the General Agreement on Tariffs and Trade, the developing countries unanimously rejected a suggestion to consider the establishment of new international rules to guarantee access to supplies for consuming countries, analogous to the traditional GATT rules guaranteeing access to markets for producing countries.

Thus the commodity producers are aggressively seeking to improve their earnings dramatically, through whatever means they can devise to fit the opportunities available to them, and they are recording substantial successes. Two basic developments explain why they are doing so.

First, the buyers' markets of the past have largely become sellers' markets. Downturns in commodity prices usually lead declines in the business cycle by at least one quarter, which is why many observers began to predict a bursting of the commodities boom in early 1973. Yet the prices of virtually all primary products continued to rise, or declined only marginally from record levels, until very recently—at least eighteen months after they "should" have turned down—despite the sharp decline in GNP in the United States and Japan and markedly slower growth rates in nearly every other industrial country. References to unsuccessful cartelization efforts during the past decade, when buyers' markets dominated, are irrelevant to the current situation.

Economists frankly do not understand why this has happened. Double-digit inflation, itself caused partly by the rise in commodity prices, has fueled further speculation in commodities as faith in paper money folds; hence a commodity-price spiral replaces or supplements the wage-price spiral that has explained much of the inflationary bursts of the past. The advent of more flexible exchange rates, while providing a major improvement in the balance-of-payments adjustment process, may increase this effect by reducing confidence in currencies as against "real goods." The success of the new OPECs, and fears that more are coming, may add yet another loop to the spiral.

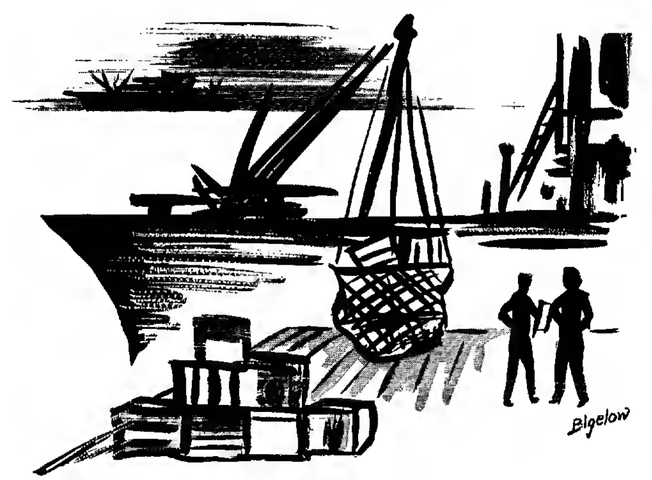
Because buyers' markets have become sellers' markets in virtually every primary product, market conditions provide an ideal setting for producers to raise their prices still further. Even the most persuasive counterargument to this thesis published so far concludes that "there is an improved climate for group pressure or price leadership, and where the trend is toward higher mineral prices . . . the new aggressive stance of producers would seem to make it irreversible." (Bension Varon and Kenji Takeuchi, "Developing Countries and Non-Fuel Minerals," *Foreign Affairs*, April 1974.) As always the rich get richer—this time, of course, with some justice in that it is the *nouveaux riches* who are benefiting.

The second fundamental change is the success of OPEC itself. There is disagreement as to whether OPEC is really a successful cartel, or whether it is simply an inner group of four or five countries that have propped up the market by restraining output, or whether the results are due solely to the activity of a single country (Saudi Arabia), or whether—in light of Middle Eastern politics—economics has anything to do with the situation.

These questions as yet have no widely accepted answers. But whatever the answer, OPEC has worked. Its success promotes "new OPECs" in several ways.

In purely economic terms, the dramatic increase in oil prices forces every oil-consuming country to maximize its own export prices so as to limit the cost to its balance of payments and internal growth. Many developing countries have no alternative; they can look only to their primary products if they are to recoup.

OPEC shows that a producer-country cartel can work. If OPEC can work for oil, similar organization may even be *easier* to form for other commodities. OPEC comprises a large number of countries reliant on a single



commodity, several of which hold very different views on important economic and political issues, including Israel. The absence of a concerted response to OPEC by the oil-consuming countries can only suggest to other primary producers that they need have little fear of even subtle retaliation against their efforts. Indeed, virtually every action taken by the industrial nations—notably the scrambles for "special deals" by the Europeans and Japanese—encouraged OPEC to take more and bigger steps.

In addition, OPEC may help its offspring directly. The Shah of Iran has spoken publicly of such possibili-

ties, which are one way—perhaps a very profitable way—for the oil producers to mitigate the economic damage they have done to a large number of countries that are still relatively poor. Since the OPEC countries are looking for profitable ways to invest their oil earnings, simple purchases of commodities (including futures) in the open market might meet their economic and political goals simultaneously.

It is often argued that producer-country cartels for other primary products will not work even if the countries involved try to form them. That argument is not persuasive. Only three prerequisites need be satisfied for such cartels to succeed.

The economic requirement is a relatively low price elasticity of demand for the commodity in question—that is, a higher price must neither reduce final demand for the product excessively nor trigger substitution by similar commodities. Existing knowledge of these elasticities suggests that they are quite low for a wide range of primary products. Substitution—of aluminum for copper, for example—is unlikely if the prices of *all* commodities are high and rising, as they have been in recent months. Moreover, the huge investments required to develop new sources of supply or substitutes—often in "politically unstable" areas—are a major deterrent to increased production even in the medium term.

In short, it would be unwise to assume that "the market" will quickly abort the efforts of primary producers to boost their returns substantially.

The political criterion for a cartel is simply an absence of overt enmity among the participating countries. They need not be allies or even hold similar foreign policy views. Some of them would have no reason even to communicate *except* to maximize their commodity power, as in the case of Bolivia and Malaysia on tin, and Chile and Zambia on copper.

It is a common fallacy that only "shared political values" subsumed in hatred for Israel bound together the oil producers. In fact Iran, the second-biggest exporter and the leader in raising oil prices, has been consistently pro-Israeli and continued selling oil to Israel during the Yom Kippur war. Important producers such as Venezuela and Indonesia care little about Middle Eastern politics. Sharp divergences exist even within the Arab world on how best to use the oil weapon. In this case the value-sharing is far from monolithic, and hardly explains the success of OPEC.

Nor is it true that a surfeit of foreign exchange enabled the oil producers to take the risk of cartelization. Iran and several other producing countries actually held small reserves and spent everything they earned. Conversely, potential members of other cartels (Malaysia, Brazil, and Australia, among others) have sizable reserves. Poverty may encourage cartel efforts more than it will deter them. On balance, then, the foreign exchange position is not what made OPEC succeed.

Lastly, a cartel is manageable only if (a) relatively few countries are involved, or (b) a single country is willing and able to dominate the market. One or the other of these conditions is present in a wide array of markets for primary commodities.

Such generalities obviously cannot be applied without reservation to every primary product at every moment in future time. Intensive analysis of the economics and politics of individual commodities is necessary to provide a clearer fix on each.

Nevertheless, individual commodity developments—like individual acts in international trade or monetary policy—take place within a broader framework of economic and political trends. The trends outlined above, coupled with the new ability of developing countries to pursue national policies that effectively serve their interests and reflect their view that the international economic system has worked against them far too long, suggest that commodity power and resources diplomacy will be with us for a long time to come.

More OPECs Are Unlikely

Philip H. Trezise

I DO NOT BELIEVE that widespread fears about supplies of primary commodities other than oil have any substantial basis. Putting oil aside, I see small likelihood that producing countries will be able to concert effectively for very long on policies to limit supplies and raise prices. Again excepting oil, politically motivated embargoes on exports of primary commodities are improbable and in any case would be unsuccessful.

The general proposition is that the Organization of Petroleum Exporting Countries (OPEC) has provided a model for other producers of raw materials. It follows that the spectacular rise in the price of oil inevitably will lead countries producing minerals and tropical products to emulate OPEC by establishing cartels for their commodities. I think, however, that this is a misreading both of OPEC and of the possibilities for managing supplies of primary goods.

Consider first the conditions for an effective cartel—that is, for successful concerted producer action to raise prices. Broadly, they are two:

First, producers must be willing and able to withhold enough supplies to affect the market. If only some producers do the withholding, others must refrain from making up the difference. If consumers have stockpiles to draw on, the producers must hold back a greater volume of goods. And new suppliers must be kept out.

Second, consumer demand for the cartelized product must be relatively unaffected by higher prices. If consumers can do without, or economize, or find suitable substitutes, then a cartel will find the going rough even if its members are able to act together.

These are hard conditions to satisfy.

It is not a simple matter to manage the supply side. The temptation to cheat is always present among producers. Many of the countries involved have limited financial staying power. For some of the metals, which are the subject of most of the present worries, reserves are rather widely distributed. Cartels for these products must stretch over a large number of countries if they are to work. Lower grade reserves in nonmember countries will come to be exploited. And stockpiles can be put on the market.

On the demand side, price elasticities will vary among commodities. In no case, however, is it plausible that consumers will be helpless in the face of producer efforts to raise prices. The nascent banana cartel would appear to have limited market power, given the variety of fruits available to consumers. Could tin producers have significantly better prospects, considering the alternative materials that can be used for the same purposes? Copper, bauxite, rubber, coffee—whatever the product, the outlook is that higher prices will cause users in due course to reduce consumption and alter their buying habits. These frustrations always face the would-be organizers of cartels.

Oil may be said to be a special case. The price elasticities for oil are probably low everywhere. A large part of exportable output is controlled by a few producers, some of them well stocked with financial reserves. Perhaps more than any other primary product, oil is suitable for concerted measures to raise prices. The current folklore is that OPEC did indeed demonstrate in 1971 and again in 1973 the potential and the power of cartel action.

The facts about OPEC as a cartel do not quite correspond with the received wisdom.

OPEC was formed in 1959 in response to a reduction in the posted price and thus in producer country revenues from crude oil. Through the 1960s the real price of crude oil nonetheless continued downward. In 1970 Libya, which had become a major supplier of crude to Western European markets, had a revolution. The successor regime, independently of OPEC, cut output sharply in a partly political contest with the oil companies whose concessions were granted by the previous regime. Libya by itself, not OPEC, made possible the sizable price increases of 1971, which were ratified in the so-called Tripoli and Teheran agreements. The new prices would quickly have come under downward pressure from rising output in the Persian Gulf had not a surge of import demand in the United States strengthened the world oil market, fortuitously for the oil countries. U.S. imports of crude oil grew by two and one-third times between 1970 and 1973, from 1.5 million to 3.5 million barrels a day.

The round of much larger OPEC price increases in 1973 was made possible, of course, by the production cutbacks enforced in Saudi Arabia, Kuwait, and a few smaller Arab oil countries in the wake of the Yom Kippur war. Concerted action was taken by a few—not all —of the Arab countries in an atmosphere charged with high political emotion. It was certainly not an OPEC-wide master design. Most OPEC countries raised output as much as they could.

These events confirmed what was already apparent—that oil supplies from the Arab states are vulnerable in time of political crisis or war in the Near East, that prices will go up when supplies are short, and that the normal producer response to higher prices is to take advantage of them. Whether they mean that OPEC could hold down production levels elsewhere if Saudi Arabia were to resume the expansion of output is much less certain. The same holds for OPEC's capability to induce or enforce producer unity as other adjustments are made in world energy markets on both the supply and demand sides.

If the oil "cartel" is a somewhat questionable proposition, cartels for other primary products are far more so. Nothing in experience indicates that a number of supplying countries can operate together in a disciplined fashion for very long. It is evident, notably in the instance of the International Coffee Agreement, that even when producers and consumers agree to cooperate to hold prices steady, serious problems arise in keeping producers in line. The truth is that most of the countries producing primary commodities have very limited capacities for managing supply. Disappointment, not success, is the likely fate of the cartels now being so easily proposed.

The policy lessons I would draw from this are not the currently conventional ones. I see little need to gear up to defend ourselves against threats from the Third World. We do have commodity problems, both in supply and trade terms, but, like all problems in foreign economic policy, they will require for their solution the acceptance of special responsibility by the industrial countries and cooperation, not confrontation, between the industrial and developing countries.

First, the major trading nations—some, particularly the United States, are great primary product exporters themselves—ought to make a strong effort to tighten the rules on export restrictions as applied by themselves. There is little prospect that the developing countries will be ready to accept any such discipline, but it should be

obvious that they will scarcely feel bound to refrain from considering embargoes on exports if the United States, Japan, and the European Community are free to do as they please. In any event, it is important that the industrial countries agree to restraints on their own actions, which can be destructive of international comity whatever the developing nations may do.

Second, a case can be made for a new look at commodity agreements. As prices slip from their high levels, the developing countries are bound to come back to the question of producer-consumer cooperation to stabilize commodity prices. To be sure, the record of the past shows that stabilization agreements are hard to negotiate and perhaps harder still to operate, but the few that have been established have had their uses. Much can be said for new efforts to check commodity price fluctuations, through buffer stocks or other approaches.

The long downward trend of primary product prices from 1951 to 1968 contributed to the capacity shortages that sent prices skyrocketing in 1972–73, as well as to the frustrations of the developing world. We could, and should, try to do better as the recent boom fades and prices weaken.

Making Sense of a World in Flux

Even a headline skimmer knows that fundamental changes are occurring within and among the industrial nations, and between those nations and the rest of the world. The rush to make bilateral deals with the Arab oil producers, continuing alarm over worldwide food shortages, and India's explosion of a nuclear device are a few of the signs that the old order may be coming apart. Probing beneath the surface of events, Seyom Brown, a senior fellow in Brookings' Foreign Policy Studies program, analyzes *New Forces in World Politics* —the political, social, and economic trends that seem to him likely to prevail during the last quarter of the century.

Brown points out that the range, destructive power, and distribution of modern weapons are making independent military forces inadequate to defend most countries, while military technology is making mutual defense pacts less valuable to the superpowers and less reliable for weaker members of the superpower coalitions. At the same time, coalitions along economic lines within and between military blocs have gained prominence at additional expense to alliance solidarity.

New Forces in World Politics, by Seyom Brown. Published June 1974, 224 pages, $2.95 paper, $7.95 cloth.

In many industrialized countries, the anomalies of poverty, inflation, crime, fuel shortages, and environmental decay in the midst of affluence have impaired public confidence in national leaders and stimulated demands that governments attend to problems at home before minding the business of foreign societies. As a consequence the mutual defense pacts cemented during the cold war are loosened further.

In the Soviet sphere, continuing modernization has made it politically costly to continue to postpone attention to civilian needs, many of which now require imports of commodities and technology from the West. However, the abandonment of economic autarchy poses a dilemma for the Russians: Only a credible policy of peaceful coexistence will encourage Western countries to extend credits, liberalize their strategic embargo lists, and otherwise reduce barriers to East-West trade; but increased contact with the West could increase dissidence within the communist countries themselves. "As incentives and opportunities for cross-alliance interactions rise," Brown says, "the risks—particularly to the Soviet Union's control over Eastern Europe and over its own restive national groups—also rise considerably."

With the decline of the cold war, many Third World countries have found themselves reduced from valued clients of the rival superpowers to expendable pawns. The result has been a search by the poor "South" for new ways to extract concessions from the prosperous "North." But only a few Third World countries have raw materials, such as oil, that can be used directly as bargaining counters with industrial consumers, or indirectly to accumulate financial assets that could increase their international influence. Without a decisive shift in the patterns of global income distribution, the bitterness of the world's poor countries in the face of growing international welfare disparities will deepen.

Concurrently, the great mobility of people, materials, ideas, and money in the rich sectors of the world economy—seen most clearly in the operations of multinational corporations—have lessened the ability of nations, particularly the small and poor, to regulate their domestic markets in the public interest.

Lastly, the pressure of the world's population growth and industrialization on the earth's natural resources and ecologies threatens the ability of even the largest and richest countries to assure a majority of their citizens the standards of living they demand.

One result of these forces is a revival of nationalism, as exemplified by the strife within NATO during the Arab-Israeli war of 1973 and by the continuing rift between Russia and China. At the same time, however, the nation-state system is increasingly incapable of dealing with economic and social problems that are global in scope. A central thesis of Brown's study is that both the

cold war coalitions and the nation-state system on which they rest are being eroded simultaneously, though unevenly, in several parts of the world.

Brown believes these trends are leading toward a global society unable to manage effectively either cooperation or conflict. He foresees a "polyarchy" in which nation-states, subnational groups, and transnational interests and communities vie for the support of individuals and for authority to allocate resources. Such a system of world politics, Brown contends, could evolve in peaceful or dangerous directions, depending on how the United States and other powerful countries respond to the forces that are upsetting the established order.

In an optimistic prognosis, important economic groups, technologists, scientists, and other professionals would be drawn progressively into interlocking patterns of transnational association. The resulting interpenetration of societies could discourage war-provoking actions by providing statesmen with "a rich web of interaction for bargaining, registering grievances, and threatening sanctions before total nation-to-nation hostility develops."

However, Brown continues, many of the power holders in such a polyarchic system would be even less accountable than they are today to the wishes of the less developed, less mobile groups in world society. The upper tier probably would comprise corporations and professionals in the high technology fields. Bargaining among them would determine the social order; the public at large would lose the political power it has slowly acquired through national parliaments, and the corporations able to survive the transnational competition would largely run the show. Because groups that considered themselves disenfranchised by the emerging system would be unlikely to tolerate its perpetuation, such an evolution of world politics would generate widespread hostility against the transnational power holders and thereby increase the likelihood of conflict. Polyarchy could turn into anarchy, making raw power the only arbiter.

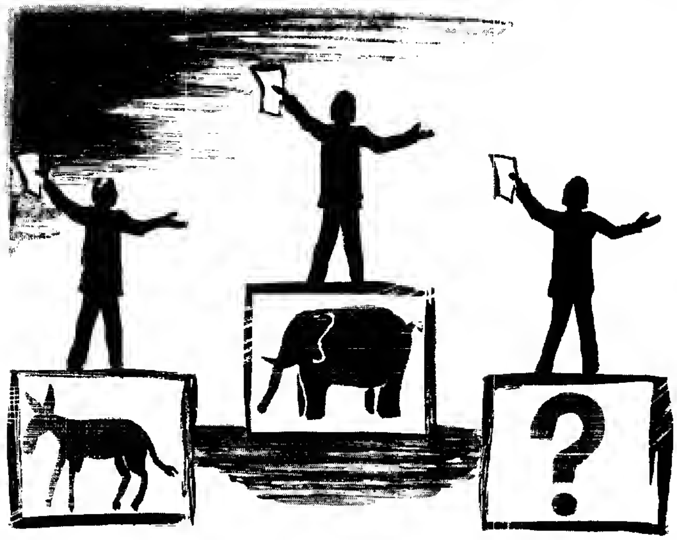
If the emerging world political system avoided the anarchic extreme, it still would lack effective and popularly accepted means of coping with the problems of interdependence. Without shared systems for mutual restraint in the management of nonrenewable resources and the environment, the prospects for mankind would be bleak.

Brown maintains that the United States could serve its best interests by working with, rather than in opposition to, the forces that are reshaping world politics. It could do so by deemphasizing its military and ideological alliances, cultivating a variety of limited-purpose partnerships, and investing its diplomatic energies in attempts to strengthen international institutions for new global management tasks. Elements of the new policy would include:

- Supporting a buildup of United Nations and other "third party" machinery for resolving international disputes;
- Seeking out opportunities to cooperate with ideological opponents on practical projects;
- Resisting the temptation to mobilize cold war allies to speak in concert on new issues or to rely on the alliance to provide the scaffolding for new institutions;
- Promoting a more open international market in raw materials, industrial products, and investment, but with substantial safeguards for the poor countries;
- Providing adequate financial and political incentives to the poor countries to cooperate with the United States and other industrial countries in the international management of scarce resources, the oceans, the atmosphere, and outer space.

Brown contends that this is a realistic posture for the United States, given the emerging pattern of world politics. He doubts that any alternative U.S. foreign policy orientation could be less provisional or speculative, even if it were premised on the conservative notion that "the more things change, the more they remain the same."

"In the new system," he says, "the most influential countries are likely to be those that are major constructive participants in the widest variety of coalitions and joint or multilateral ventures. . . . Power in the form of promises to apply or withhold military capabilities would still be of decisive importance on vital security issues; but compared with other forms of power it would have little or even negative utility in bargaining over the nonsecurity issues over which coalitions will be forming and re-forming in the post–cold war system."



Are Three a Crowd?

Do third parties have a legitimate place in the American political system? Judgments are divided. Some scholars and politicians decry third parties as undemocratic and a threat to American traditions, while others consider them important contributors to the representative process. Some view them as obstacles to a reasoned approach to public policy, others as innovative contributors to the resolution of public issues. Daniel A. Mazmanian, a research associate in Brookings' Governmental Studies program, arrives at the latter view in *Third Parties in Presidential Elections*, a study of the conditions that allow third parties to arise, their influence on the outcome of elections and on public policy, and their value within a two-party system.

He begins by analyzing George Wallace's American Independent party of the sixties and nine of its leading

Third Parties in Presidential Elections, by Daniel A. Mazmanian. Published June 1974, 163 pages, $2.95 paper, $5.95 cloth.

predecessors extending back to the Anti-Masons of 1832. The list includes a diversity of groups: Free Soilers, Populists, Socialists, Theodore Roosevelt's Progressives, Robert La Follette's Progressives. What did they have in common? Examining the historical pattern of third-party voting, Mazmanian finds that the emergence of significant third parties depends on four conditions, each of which is necessary for the next to operate:

- Severe national conflict over a few very important issues results in a period of "crisis politics."
- The electorate divides on one or more of these issues into at least one intense and estranged minority and a broad majority.
- Both major parties reject or avoid the position of the minority, thereby alienating the minority.
- A politician or political group is willing to exploit the situation by founding a new party.

Together, these conditions suffice to produce a large third-party vote.

More predictable than the emergence of third parties is their demise. In subsequent competition with the two major parties, neither Wallace's nor any other significant third party has bettered its initial popular vote. Their consistent decline is due principally to the increased attention paid by the major parties to the minority's views, once the minority's voting strength is revealed at the polls. This pattern has been repeated so regularly that it will probably apply to any future third parties that arise.

Are third-party efforts worth making? Despite their transitory nature, Mazmanian finds strong evidence that third parties have affected the outcome of several elections and that the ideas they espouse eventually may emerge as public policy. By dramatizing and sharpening minority positions on public issues, they repeatedly have forced controversies into the open and compelled the major parties to respond. Thus the Free Soil party forced debate on the issues of land settlement and the restriction of slavery in the election of 1848, and the Populists brought the concerns of western and southern farmers to national attention in 1892. The ability of third parties to dramatize issues doesn't mean that their positions become cornerstones of public policy, yet many of their demands—progressive taxation, regulation of railroads, child labor laws, social insurance—have been adopted by the major parties and eventually enacted into law.

Inevitably, however, third parties have met with a mixed reception in a country in which the two-party tradition runs deep. Critics argue that they threaten stability by encouraging extremism and fragmentation of the political system. Because third parties tend to be contagious, the argument runs, eventually they could embroil the United States in irreconcilable conflicts over narrow objectives, as happened in the Fourth French Republic and the Weimar Republic of Germany. Mazmanian finds nothing in American political experience to support this gloomy prognostication.

Nevertheless, third parties can and sometimes do prevent a majority of popular votes from going to any one of the major candidates in a presidential election, giving rise to the argument that such parties endanger majority rule. Although majority rule occasionally has been abridged in the sense that one candidate has failed to win more than 50 percent of the popular vote, Mazmanian concludes that removing the third-party contender would have changed the outcome of very few presidential races. In the electoral college their influence is nil. Never has a third party played kingmaker in the electoral college by throwing its votes to one of the major

party candidates, or forced a contingent election in the House of Representatives.

In Mazmanian's view, the arguments against third parties are far outweighed by the parties' value in drawing attention to neglected issues and proposing solutions, some of which may be adopted by the major parties. Although third parties do disrupt "politics as usual," they are hardly undemocratic, for they furnish the principal means by which dissatisfied citizens may challenge the reigning parties and exercise a check on their performance.

Mazmanian considers these benefits important enough to warrant adjusting the two-party system to encourage third parties to survive after the crises that give birth to them, and to participate in more than one election. An example of a modified two-party system is found in New York State, where the Republicans and Democrats vie with each other and with third parties that are able to sustain themselves over time. Two of the minor parties —the Liberals and the Conservatives—not only participate in elections but also contribute directly to policymaking in the state government. They do so within a system of direct elections of a single chief executive, plurality rule, two major parties, and other features common to American party systems.

Under the modified system as it operates in New York State, a third party may run its own candidate, endorse a candidate of a major party, or abstain from the election. The major parties may choose between accepting an endorsement, refusing it, or remaining neutral. The third parties survive by endorsing major-party candidates on some occasions and for some offices, while fielding their own candidates and programs on others. A third party need not abandon its independent organization, identity, or ballot position when it supports a major-party contender: it simply places the name of the major-party candidate in its own column on the ballot. Over the years, this system has produced a variety of party coalitions in New York, with the Liberals most often endorsing the statewide Democratic candidates and the Conservatives endorsing Republicans.

Mazmanian finds the principal advantage of the modified system to be the continuing presence of third parties representing alternative policies and contrasting political views—hence a continuing counterweight to the major parties' tendencies to hedge, to opt for the center, and to slight long-term planning and program development. With the third-party alternative constantly available at the fringe, each major party would have to move gradually away from the center to avert defections. Through continuing participation in politics after the crises that brought them into being, third parties could provide a continual airing of minority views and encourage change in a gradual and constructive manner.

Mazmanian's study is the sixth in the Brookings series of Studies in Presidential Selection, a continuing project that has been supported by a grant from the Ford Foundation.

The Limits of Regionalism

A recurring problem of government is how to perform functions that don't fit neatly into existing geographical jurisdictions. Toward solving that problem, more than thirty years of experimentation in the United States have produced a variety of regional organizations that span several states, the oldest and best known being the Tennessee Valley Authority (TVA). Most of the others were set up during the 1960s to plan and coordinate the economic development of depressed areas, such as Appalachia, or to assist in developing river basins. In *Between State and Nation,* Martha Derthick examines six of the most prominent regional organizations, asking how well they meet their various objectives, how they might be improved, and whether they should be extended to other parts of the country.

Between State and Nation: Regional Organizations of the United States, by Martha Derthick with the assistance of Gary Bombardier. Published June 1974, 242 pages, $2.95 paper, $7.95 cloth.

Advocates of regionalism sometimes go so far as to urge that state governments be replaced by regional governments that would conform more rationally to the "natural" or sociocultural features of American society. Derthick considers it politically inconceivable that the states would step aside and let regional governments take over. Confining her analysis to the here-and-now, she finds that regional organizations are expected to serve at least one of three less ambitious purposes:

- Coping with the problem of *scale* that arises whenever public functions spill over state boundaries without requiring nationwide action. As a means for carrying out public functions on a regional scale, an organization may have operating, regulatory, or management functions; or it may plan and coordinate only. The TVA and Delaware River Basin Commission fall into the first category. The Appalachian Regional Commission (ARC); the Title V commissions for regional economic development, authorized by the Public Works and Economic Development Act of 1965; and the Title II commissions for river basin planning, authorized by the Water Resources Planning Act of 1965, fall into the second.
- *Coordinating* federal agencies whose overlapping functions encourage competition for funds, programs,

and power. A classic case was the struggle among several agencies for the right to develop various river basins a generation ago. The Title II commissions were established as much to deal with this kind of problem as with the scale problem. The Federal Regional Councils, on the other hand, are intended primarily to coordinate other agencies by bringing together the regional directors of the major federal grant-giving agencies in each of the ten standard federal administrative regions.

• *Decentralizing* governmental functions that have been concentrated increasingly in Washington since the New Deal. To that end, federal and state officials may be brought together in a joint organization, or a purely federal body (such as TVA) may be given authority and flexibility to adapt its operations to local conditions. The Federal Regional Councils represent still another strategy whereby federal authority is delegated to field officials who meet in a coordinating forum, the interagency council.

For analytical purposes, Derthick selects six cases of regional organization. Three of them—TVA, the Delaware River Basin Commission, and the Appalachian Regional Commission—she terms "leading cases" in that they have formal authority or other resources that set them apart. The other three—the Title V and Title II commissions and Federal Regional Councils—she calls "generalized cases" because each actually comprises a class of organizations. Although the leading cases probably have made a deeper impact on American society, the others have a broader geographical scope and thus are useful in estimating the results of extending regional organizations nationwide.

Derthick examines each organization—its origins, its principal activities on behalf of its region, its functions as an agent of decentralization or coordination, and the outcome of any attempt to duplicate or generalize it. She concludes that the distinctive value of regional organizations lies in whatever merit they have as a response to the problem of scale.

None of the organizations studied was particularly successful as a coordinator of federal activities. Nor did Derthick find much evidence to justify regional bodies as agents of decentralization. Not only are the states at a disadvantage in the joint bodies typically used to achieve decentralization, but the joint organizations themselves are limited in power and add little to what the states could do for themselves.

Derthick advances several reasons why regional efforts so often fall short of their goals.

First, any regional organization must establish itself in a crowded, competitive universe of state and federal government bodies. To gain a place among those powerfull rivals, it must adapt to them rather than try to change them. Consequently every regional body has had to operate in a narrower sphere than was originally authorized, or to proceed at a slower pace. Even the TVA abandoned the idea of becoming a comprehensive regional planning agency.

Second, the regional organizations that have been widely reproduced are the weak ones confined to planning or coordination. The strong ones are political accidents, and accidents rarely happen twice. Each of the leading cases grew out of circumstances that were special and fortuitous, offering a singular opportunity for innovation. A long debate over public versus private ownership of nitrate plants and a dam on the Tennessee River led to an unusual proposal to develop the river basin. A Supreme Court decision followed by a flood precipitated action on the Delaware River. The discovery of Appalachian poverty by politicians and the media, plus a severe flood, gave state officials an opportunity to appeal for special aid. Instrumental in all three cases were determined leadership and weak or distracted opposition. In contrast, the widely generalized organizations were to one degree or another centrally planned in the Bureau of the Budget, which clearly intended to limit their functions and funds.

Third, the success of an organization depends on setting and circumstance. TVA worked well in the Tennessee Valley in the 1930s, but its results probably couldn't have been duplicated in other river basins. In quality of leadership, staff, and organizational spirit, the TVA, Delaware River Basin Commission, and ARC all benefited from being new and experimental. Imitations would lack the qualities of the original.

Lastly, regional organizations run against the institutional grain of American government. Forty years ago the National Resources Committee studied regional problems and reached the pragmatic conclusion that the design of a regional organization should depend on its prospective functions, its area of operation, the constitutional powers required, and the costs and benefits. Derthick concludes that pragmatism is still the best policy. To win the fight for existence, a regional organization must have an extraordinary constituency support or means of self-support—conditions that depend on a fortuitous coming together of opportunity, leadership, and political backing.

Despite the odds, Derthick believes the Appalachian Regional Commission shows signs of being generalizable. The ARC began in 1965 as a channel for increasing the flow of federal funds to the states, a function that both enabled it to surmount the opposition of federal agencies and induced the states to participate. The Title V commissions are roughly patterned after the ARC; by 1972 all but eleven states were participating in such commissions, and the U.S. Senate was considering reproducing the ARC itself nationwide.

Derthick doesn't advocate such an extension, since no form of regional organization—with the possible exception of TVA—seems effective in attacking the problems of coordination and excessive centralization. As for regional organizations with operating or regulatory functions, the best results are likely to be achieved ad hoc, in response to particular needs that can be shown to require organization on a regional scale and to require it so urgently that the inevitable costs in administrative confusion are worth paying.

Martha Derthick is a senior fellow in the Brookings Governmental Studies program; her associate, Gary Bombardier, is now a staff member of the Subcommittee on Intergovernmental Relations of the House Committee on Government Operations. The study was sponsored by the National Area Development Institute and supported by a grant from the Ford Foundation.

What's New at Brookings?

These are among the studies that have been started recently in the Institution's three research programs:

Congressional Power. Events of the past decade suggest to many observers that the institutional balance in the American political system has been upset through aggrandizement of the presidency at the expense of the Congress. James L. Sundquist will examine the institutional balance, seeking answers to some broad questions: Has the Congress in fact declined relative to the presidency? If so, when, in what ways, and why? How might the Congress reassert the initiative in legislative policymaking? Would the results be better, and at what cost to governmental efficiency? Sundquist will combine historical research with a systematic review of current congressional practices during the remainder of this Congress and the first year of the next one, building on the research base established for his first Brookings study, *Politics and Policy.*

World Agriculture: Reassessment of Trends and Policies. Judgments are divided as to whether an irreversible turning point has been reached between world food supplies and demand, or whether recent food shortages are temporary. As a basis for informed agricultural policymaking, the first part of this study will reassess trends in agricultural production, consumption, prices, incomes, employment, and trade in both market and centrally planned economies, drawing on recent analyses and case studies. Part two will assess the intermediate and long-term implications for agricultural policies in the United States and other industrial nations and for the special problems of less-developed countries. The study will be conducted by Fred Sanderson, a specialist on world agriculture who recently joined the Foreign Policy staff as a senior fellow.

Unemployment, Inflation, and the Poor. Using the results of recent longitudinal surveys, Edward M. Gramlich will seek answers to four broad questions: (1) What is the impact of varying overall rates of unemployment on the patterns of employment and earnings of workers in various income and racial groups? (2) How do unemployment insurance, food stamps, aid to families with dependent children, and other federal transfer programs protect households against the effects of unemployment? (3) What effects do general employment conditions have on family splitting, new household formation, and perhaps even birth rates among various income groups? (4) Given the differing impact of inflation among households, what kind of tradeoff between high

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employment and price stability should macroeconomic policy be designed for, and how could income transfer policies be used to protect families that are especially vulnerable to inflation? The study will be supported by a grant from the Department of Health, Education, and Welfare.

Higher Oil Prices and the World Economy: An Appraisal of Adjustment Policies. The purposes of this study are to review the impact of the October 1973 oil embargo and the subsequent rise in oil prices on the economies of the United States, Western Europe, Japan, and the developing countries; to assess and compare the actions they have taken to deal with the problem; to outline critical areas of uncertainty for the future; and to draw conclusions on a worldwide basis as to the adequacy of offsetting measures in domestic policy, in international economic relations, and with respect to energy itself. Papers commissioned from experts on the countries and regions concerned will be discussed at a Brookings conference in November 1974 and will form part of a book-length manuscript outlining a long-term approach to the worldwide energy problem. Edward R. Fried, Charles L. Schultze, and Joseph Yager will direct the project, which is supported by the Ford Foundation.

Tripartite Meeting on Future Trends in Primary Commodities and Their Impact on International Economic Relations. Participants in this meeting will examine market trends in primary commodities—minerals, tropical agricultural products, and perhaps cereals—to determine whether these trends have special significance for the organization of the international economic system and for relations between industrial and developing countries. The group, consisting of private economists from North America, Japan, and the European Community, will prepare a report reflecting its conclusions. This meeting, the sixth in the series of meetings of experts from these three areas to consider common economic problems, will be held in Tokyo in October 1974 under the sponsorship of Brookings, the Japan Economic Research Center, and the Kiel Institute of World Economics.

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